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ROHR ALERT!! Bond Angst into Jackson Hole

1 message

ROHR Alert <rohralert@gmail.com> Wed, Aug 26, 2020 at 10:29 AM
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Dear Subscribers,
The driver behind recent global govvies weakness (i.e. higher yields) is getting clearer as we head into Thursday morning's start of the annual (and virtual on COVID-19 concerns this year) KC Fed Jackson Hole Symposium. At least nobody can accuse them of 'burying the lead', as the most early phase of central banker speeches includes Fed Chair Powell. That will be at an atypically early 09:10 EDT.

Why should a speech from the estimable Fed head raise the sort of concerns which have weighed on global govvies all week? Well, it seems that the Fed has completed the major multiyear review of its policy framework, and the focus will be on creating more inflation along with strong US employment. The concern that Powell will roll out this policy shift in Thursday morning's speech is clear from its 'Monetary Policy Framework Review' title. So fasten those seat belts.

There is quite a bit in this morning's Reuters article (https://reut.rs/2D5bpMI), including the challenges in attempting anything of this sort in the current economically depressed COVID-19 pandemic environment, and its aftermath.

Thus it is given that, "*The Fed first put the* (2.0%) *inflation target in place in 2012, and has missed it most of the time since*." "*At its* (September) *policy meeting, the Fed is expected to change how it characterizes its inflation goal. Instead of looking to achieve 2% inflation on an annual basis, it is expected to aim to achieve that level as an average over a longer time, and explicitly allow perhaps years of faster price increases to make up for years when prices rose too slowly*."

The article also articulates that the complexity of the policy shift "...*is a mouthful for Powell to explain*…" and goes on to note… "...*perhaps more so with about 28 million Americans collecting unemployment benefits*." Our view is that despite the current higher inflation talk weighing on the global govvies, this is hot air.

It goes back to that central bank 'Normalcy Bias' wishful thinking we revisited as recently as our August 6th "...US Employment Win-Win'" ALERT!! That was on the degree to which most of the major economy central bankers (especially the ECB and BOJ) have promised imminent higher growth and some inflation risk. However, in all cases that turned out to be Normalcy Bias wishful thinking the central bankers accepted, in part to justify all of their extreme liquidity actions.

As extensively referenced back on August 6th regarding previous central bank failures, "*It reminds us of the early-2015 through early-2016 Yellen Fed warnings that it would need to raise rates soon because the previous stimulus was just about to trigger stronger growth. It didn't happen until the later tax and regulatory changes actually stimulated economic activity the central banks do not control*.

"*Unless the Fed or BoE can actually conjure up a confidence restoring COVID-19 vaccine, the chances they alone can drive better growth is somewhere between slim and none (and as the classical joke says, "...and Slim just left.") Just think about how long the ECB and BoJ have been touting the effectiveness of their negative base rate policies with little or no impact on overall economic growth*."

And as we noted in our July 31st 'Liquidity Bifurcation' ALERT!! (regarding the asset class psychology divergence), it is essential that businesses take up the additional central bank liquidity infusions for investment and hiring. That this is not happening now under the COVID-19 pandemic pressures is very obvious in implosion of "...*the 'Velocity' of the US Monetary Base (https://bit.ly/2XeMQ6W our marked-up version on StLouisFed.org data with graph by DavidPaulLaipple*.)"

"*As an aside, note the lack of 'velocity' back into 2015-2016, even as the Yellen Fed was warning of an uptick in inflation based on economic growth*." And as further noted at that time, "*The lack of business confidence and investment/hiring meant that no matter how much liquidity the Fed provided the money was not being recirculated (i.e. the actual 'velocity' driver) in a manner that would deliver greater growth*." So unless Chair Powell and other central bankers can conjure up a reason for businesses to invest and hire, there is not much threat of inflation.

In that regard, it might be that our Tuesday "'Risk On' is Back!" ALERT!! was right in pointing out that it is in part 'friendly central banker anticipation'. Of course, that includes some means by which the virtual communication from Jackson Hole beginning tomorrow will encourage some sense that the economy will be returning to strong employment… which is way beyond central bank powers.

As such, there is a real potential into late week that the 'friendly central banker anticipation' will turn into 'central banker disappointment' once again. That said, there can be initial upbeat sentiment on the Powell pronouncements, and the real trend of various asset classes will only become more apparent on Friday.

However, as a reminder of just how depressed things were in Q2 and how long the road back might be, note this morning's release of the distinctly downbeat Organization for Economic Cooperation and Development's Q2 GDP - Quarterly National Accounts (https://bit.ly/2YBxsCi our marked-up version.) In addition to the title noting a Q2 "*Unprecedented Fall*..." in growth, there were notes on all major economies' weakness in Q1… they were all already contracting quite a bit.

Confirming that things on a 'granular' level are indeed as weak as some of the retail and restaurant numbers suggest, Dallas-based Charter Holdings CEO Ray Washburne was on CNBC again this morning. He revisited the degree to which the PPP for business hiring was in part helpful, yet also misguided on forcing hiring while the pandemic shutdowns were preventing restaurants from opening.

He went on to note that those PPP funds have almost completely run out, and the lack of any follow-on government support programs after the July 31st expiration of previous programs will likely weigh on recent passingly improved restaurant revenues, and current mostly carry-out models incur costs not covered by PPP. His expectation if nothing is done is another 10,000-20,000 permanent restaurant closures… with the attendant job losses on top of what we have already seen. What is there the Fed and other central bankers do to reverse the trend?

That said, the Evolutionary Trend View essence remains the same: the September S&P 500 future needs to Close the week at least above 3,418, or even better 3,425. This has to do with the extended weekly Oscillator thresholds, and we suggest a read of Monday's ALERT!! for anyone interested in more specific information.

In the meantime, the global govvies are under more significant pressure that seen since the surprisingly strong US inflation numbers seen two weeks ago; and that is despite the recent still problematic economic data… especially that weak US Consumer Confidence. That said, the German Bund is the far weaker sister now, likely on lower yields leaving it more vulnerable in anticipation of Jackson Hole.

And the emerging currencies are gaining more strength in a clear indication of a better global economic sentiment. How much of that is real and how much of it is 'friendly central banker anticipation' will probably become clear late this week. That said, the US dollar is steady against developed currencies on weakness elsewhere, especially as EUR/USD continues to stall in the low 1.1800 area.

Another Courtesy Repeat of Monday's critical consideration
[To be updated after Fed Chair Powell's Thursday speech]

COVID-19 virus spread caused US equities intermediate-term bull psychology to 'crack'. Early March already saw front month S&P 500 future back below key congestion around the mid-2019 3,030-00 previous all-time high congestion. That was below support from the push above the multi-year topping line at 3,070 as well, and left a late-February intermediate-term up channel 2,970 DOWN Break.

The subsequent DOWN Break below the front month S&P 500 future 2,600 area major up channel seemed to indicate more of a near-term failure. That was from the early 2016 low (https://bit.ly/34poXh5 updated through Friday.) That was then the key higher resistance subsequently violated on its mid-April push above its 2,675 trading high Tolerance from prior to the DOWN Break (also monthly MA-48.)

The front month S&P 500 future pushing out of the broad higher range top in the 3,030-2,970 area in early June was the key to it surging to the 3,200 area. That was the next meaningful higher resistance with a 3,230 Tolerance at which it failed previously on the current rally. Yet pushing above it in late July opened the door to a retest of the February 24th major gap down from the February 21st 3,339.25 weekly Close it has managed to Close above once again since two weeks ago.

The only nominal resistance above that was February's 3,397.50 front month future all-time high. Along the way is a minor 3,381 DOWN Closing Price Reversal (CPR) from that topping week (Tolerance 3,388.50.) Yet that CPR is so minor in the face of a major rally back from the February-March debacle, it was hard to imagine it could prevent the front month S&P 500 future from at least taking a look above 3,397.50; and that has now transpired.

That is also just above the extended 'adjusted' weekly Oscillator range, with the next (all-time) Oscillator range not until the 3,413-18 area this week, and also still rising $7 per week on the continued MA-41 rise. That is the same threshold where it stalled in February, which we already knew from the Oscillator 'adjustment' we made after the market strength into early 2017. It's going to be very interesting.

Does classical over-extension take its toll, or do US equities just power higher? For more on those 'contingencies' based on adjustment to the previous classical Oscillator thresholds (and how they evolved), please see (*Monday's*) ALERT!!

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